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UNCLAS SECTION 01 OF 02 MAPUTO 001158

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AF/S FOR HTREGER AND JMALONEY
STATE PASS OPIC
JOHANNESBURG FSC FOR RDONOVAN
JOHANNESBURG TDA FOR DSHUSTER
UDOC RTELCHIN
MCC FOR SGAULL
EB/IFD/ODF FOR JGARBER
USAID FOR AA/AFR AND AFR/SA

E.O. 12958: N/A
TAGS: EINV EAID ECON ELTN ETRD MZ
SUBJECT: MOZAMBIQUE: BRAZILIAN COMPANY CVRD OPTS AGAINST
BUYING OPIC-SUPPORTED NACALA LINE TO EXPORT COAL

REF: A. MAPUTO 422

¶B. MAPUTO 599

¶1. (SBU) Summary. Recent developments between the OPIC-supported US/Mozambican consortium managing the Nacala Corridor, CDN, and the Brazilian company CVRD indicate that CVRD probably will not, as previously thought, buy the Nacala railroad corridor to transport coal from the Moatize mines. Instead, CVRD is looking into the viability of the alternative Sena line, which connects Moatize with the port of Beira, in accordance with the wishes of World Bank staffers and CFM, the Mozambican railroad parastatal. We understand, however, that CVRD only will be able to transport 1-3 million tons of coal per year on the Sena line, a far cry from original estimates of 10-14 million tons per year via Nacala. CDN will forge ahead with rehabilitation work on the Nacala line, despite the projected loss of CVRD traffic; CDN says it had not counted on coal traffic when it originally bid on the railroad concession. One of the two American firms in the consortium, the Railway Development Corporation (RDC), is arranging to sell its shares to another partner in the consortium, the (Mozambican) Manica Freight company. End Summary.

CVRD Ducks Option to Purchase CDN

¶2. (SBU) In March CVRD and CDN had reached agreement giving CVRD an option to purchase the Nacala line, which CVRD indicated it planned to use to export coal from Moatize. (Please see refs A and B for further background.) CVRD failed to exercise its option to purchase CDN by the deadline of July 31 (Note - Ref B mistakenly reported CVRD had a year-end deadline) and asked CDN for an extension to August ¶15. CDN granted the extension. However on August 15 Fernando Couto, owner of Manica Freight, received an email from CVRD stating that CVRD was ceasing negotiations over the Nacala line because it had decided to re-examine the possibility instead of using the Sena line and port of Beira to export coal. According to the email, as shared by Couto, CVRD was not closing the door to Nacala, but if CVRD returned it would be as a client of the railway, not its owner.

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CDN Thinks it Can, It Thinks It Can -- Without the Coal
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¶3. (SBU) With the termination of the CVRD deal, CDN has declared publicly and to emboffs in private meetings that the time has come to move forward (Couto indicated privately that CDN had put some of its plans on hold when it thought CVRD would buy it out). In management terms, for CDN this will mean a change in shareholder holdings, with Fernando Couto/Manica Freight buying out RDC's shares in the concession, according to Couto. Doing so leaves Manica Freight and Edlow Resources (another American company) as the primary private sector shareholders, which together hold 51% of CDN's shares; the Mozambican railroad parastatal CFM holds the remaining 49%. On the operations and public relations side, moving forward means forging ahead with rehabilitation work on the Nacala line and, especially, the spur linking the line with Lichinga, the isolated capital of Niassa province, which CDN says is uneconomical but which the government considers a top priority for political reasons. Couto told emboffs that CDN intends to operate the railroad profitably, despite CVRD's change of heart, explaining that CDN had never contemplated shipping Moatize coal when it originally bid to manage the railroad several years ago.

Why Did CVRD Back Out?

¶4. (SBU) Comment: It remains unclear why CVRD chose to shift its focus from the Nacala to the Sena railroad line. World Bank staff members were placing pressure on the Mozambican government and CVRD to re-examine the Sena line as recently as last May (see ref B). And the head of CFM, a Beira native, is known to have sentimental attachment to Beira and favor the Sena corridor, despite CFM's minority holding in CDN. Couto speculated that CVRD may have dropped the Nacala corridor option because of cash flow problems for

the giant Brazilian multinational. According to Couto, CVRD this summer acquired properties in Canada and Australia and therefore did not want additional exposure at this time by buying out the Nacala corridor, which would have meant taking on a huge financial and logistical project involving building an 150 km link through the bush from the Nacala line in Malawi to Moatize. Instead CVRD found it much easier, in this analysis, to opt for the cheaper alternative of the Sena corridor, even though the coal shipments would be much smaller in size -- a maximum of three million tons as opposed to 14 million tons via the Nacala corridor. Whatever the reasons, the loss of CVRD,s coal is a large blow to CDN's projected operations. Despite the setback, Couto seems determined to make CDN succeed.
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